

EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Deferred Capital

To close the gap between the Status Quo Option and Enhanced Option B would require identifying \$29.9 million for FY 2013 and \$84.7 million over the five-year period. This significant amount of funds is difficult to identify in the short term and would likely require undesirable tradeoffs with other priority services and programs. We have identified options for possible consideration in the future once the City's financial condition is stabilized for a period of time and a successful track record for expending authorized funding has been firmly established. Funding options identified include: Future Economic Growth and Surplus, General Fund Reserves, Capital Outlay Fund, Development Impact Fees, Park Services District Funds, and voter-approved General Obligation Bonds.

Although these sources could provide additional funds for deferred capital projects, there are factors that should be considered before increasing funding for deferred capital. While projected economic growth is promising, there will be changes in revenues and expenditures several times before year end and final numbers are uncertain. In addition, the City is facing many unknown factors that could impact the budget, particularly in relation to the dissolution and unwinding of the Redevelopment Agency. Finally, Public Works staffing capacity to deliver Enhanced Option B depends on City Council approval of all CIP streamlining recommendations and six additional positions in the FY 2013 Operating Budget estimated at \$539,779. Since streamlining measures will not be implemented until FY 2013, the full impact on project schedules and staff capacity is unknown.

We are recommending that the Council approve Enhanced Option B Deferred Capital Funding Plan which includes \$75 million of bond funding for deferred capital projects and a targeted cash funding amount of \$54.1 million in FY 2013. The ramp up of investment will provide time for the Department to assess the true impact of CIP streamlining and adjust staffing capacity over time in a more informed and effective manner. It will also provide time for potential uncertain risks to the General Fund, such as redevelopment dissolution, to become clearer. When the Mayor's Office brings forward future Deferred Capital Bond issuances and annual cash funding recommendations, Council will have the opportunity to reassess planned investments in deferred capital based on financial conditions and priorities, potentially increasing funding beyond planned levels. Finally, given the rate of spending and project completion during the first Deferred Capital Bond (FY 2009), Public Works needs the opportunity to fully implement streamlining and demonstrate that it can complete needed projects and expend bond funds in an effective and timely manner. Public confidence and support will be needed for the City to successfully draw down the \$898 million backlog, particularly if the City determines that General Obligations Bonds, which require a two-thirds majority public vote, are the most cost effective funding source for the future.